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BEFORE THE ARIZONA CORPORATION

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WATER WORKS COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE COMMISSION'S
GENERIC EVALUATION OF THE
REGULATORY IMPACT FROM THE USE OF
NON-TRADITIONAL FINANCING
ARRANGEMENTS BY WATER UTILITIES AND
THEIR AFFILIATES

Docket No. W-00000C-06-0149

NOTICE OF FILING

The Global Utilities¹ file the following document that was presented at the November 4, 2011 workshop in this docket:

- (1) "ROEs in Arizona", Paul Walker, Arizona Insight, LLC.

RESPECTFULLY SUBMITTED this 8th day of November 2011.

Arizona Corporation Commission

Roshka DeWulf & Patten, PLC

DOCKETED

NOV 8 2011

DOCKETED BY

By

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¹ Global Water - Palo Verde Utilities Company, Global Water - Santa Cruz Water Company; Hassayampa Utility Company, Inc., CP Water Company, Global Water - Picacho Cove Utilities Company, Global Water - Picacho Cove Water Company, Valencia Water Company - Town Division, Valencia Water Company - Greater Buckeye Division, Water Utility of Greater Tonopah, Inc., Willow Valley Water Co., Inc. Water Utility of Northern Scottsdale, Inc. and Balterra Sewer Corp.

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1 Original + 13 copies of the foregoing
2 filed this ~~8th~~ day of November 2011, with:

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington
6 Phoenix, Arizona 85007

7 Copies of the foregoing hand-delivered/mailed
8 this ~~8th~~ day of November 2011, to:

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ROEs in Arizona

1. We have documented the ACC's abnormally low ROE decisions:
 - a. They lag the U.S. mean by 100bp
 - b. They lag the U.S. average by over 100bp
 - c. They lag over 125 mutual funds' 5-year average returns
 - d. They lag over 500 mutual funds' 3-year average returns
2. We have researched RUCO's "comparable entities"
 - a. They have ROEs > 11%
 - b. They have each earned > 11% this year
3. We have researched the earned ROEs of Arizona's Class A utilities
 - a. **APS** has not earned its ROE since at least 2003
 - b. **TEP** has not earned its ROE in "at least the past several years" according to Company officials
 - c. **Southwest Gas** has not earned its ROE in 15 years
 - d. **UNS-Electric** has not earned its ROE since inception in 2006
 - e. **UNS-Gas** has not earned its ROE since inception in 2006
 - f. **No Class A water company has earned its ROE since 2006**
4. Arizona grants abnormally low ROES and Class A utilities still are not able to earn them.
5. Arizona has been rated in the bottom 5 states for investors in utilities by S&P since 2006.
6. Arizona has been rated the least favorable investment climate for water investment by Janney Montgomery Scott
7. If we plan to invest in energy and water, Arizona has to change its ways.

8. We propose a solution:
 - a. The U.S. average return on equity over the past 30 years has been 10.5%
 - i. Bianco Research, Chicago IL
 - b. Water and wastewater companies face a constant and large need for investment capital:
 - i. AUS Utility Reports:
 1. \$3.46 plant for \$1 operating revenue – Water
 2. \$1.63 plant for \$1 operating revenue – Electric
 3. \$0.82 plant for \$1 operating revenue – Gas
 - ii. EPA Infrastructure Needs Assessment (CBO Report)
 1. \$478 billion needed in America over the next 20 years
 - c. Adopt an Arizona ROE policy of 10.5% for water and wastewater companies
 - d. A 10.5% ROE:
 - i. Is *only 20bp* higher than ACC Staff's recommended ROE average in the 2007-2010 period,
 - ii. Is *lower* than Florida's Generic ROE model:
 1. 10.85% in 2010, and
 2. 11.3% in 2009
 - iii. Is *50 bp lower* than the ROEs of the companies RUCO uses as "comparable entities" for determining ROEs
 - iv. Is *70bp lower* than Value Line's Utility Index
 - v. Is *50bp lower* than Thomson Reuter's Utility Index
 - vi. Is *40bp lower* than Zacks' Utility Index
 - e. A 10.5% ROE would:
 - i. Eliminate millions of dollars of rate case expense that Arizona customers face from fighting over ROEs
 - ii. Save countless hours of effort by all parties, including Staff
 - iii. Eliminate dozens of days of hearings
 - iv. Provide a constructive and transparent signal to investors
 - v. Be very near the U.S. average utility ROE from PUR *Fortnightly*:
 1. 2010: 10.34%
 2. 2009: 10.51%
 3. 2008: 10.44%
 4. 2007: 10.33%
 5. 2006: 10.61%

9. Allow utilities to actually earn their ROE:
 - a. DSICs and CSICs
 - i. Reduce rate shock
 - ii. Provide earnings stability
 - iii. Simplify and shorten rate cases
 - b. Cost Adjustors
 - i. Property Taxes
 - ii. Energy Costs
 - iii. CAGR fees
 - c. Tax Recognition for S-Corps and LLCs

If Arizona adopts this approach, our state would have an AVERAGE investment climate. That's a great goal – Arizonans are suffering from the economy and don't want to become Wall Street's favorite game. But we need a lot of investment – so let's balance the interests here and aim to be average.

This policy creates certainty, stability, and transparency and attracts investment capital to our state so we can invest in water. And we achieve all those benefits while reducing rate case expense and streamlining the rate case process.